RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

NEXT MAILING: Jan. 14, 1998

Dec. 31, 1997 **LETTER 1242**

GREETINGS: I feel ashamed, because this year Faye and I didn't send out any Christmas cards or Season's Greetings cards or Happy New Year cards; we (blush) just didn't send out anything. Our 1997 excuse -- Faye was overworked and didn't have time, and I couldn't think of anything clever to say or draw -- and by the time I did it was too late. So a belated Merry Christmas, Happy New Year, Season's Greetings, love and kisses, hugs and squeezes, and best wishes to all our friends and subscribers (and library readers).

As this time I want again to bid adieu to Bob Bleiberg, the late great editor of *Barron's* and the man who really got me started in this business. I just received a most gracious letter from Mrs. Bleiberg, and she told me something I didn't know.

At the time I wrote my first article for *Barron's* in December 1958 (article entitled, "Dow Theory Revisited"), technical analysis was a dirty word. Wall Street ignored technical analysis, bankers derided it, and no reputable publication would touch it with a ten-foot trendline. Technical analysis was considered a brand of witchcraft, financial voodoo.

When I turned my first Dow Theory article into *Barron's*, editor Bob Bleiberg told me that he liked it. But he informed me that Dow Jones frowned on technical analysis and that he would have to get permission from the top brass at Dow Jones before he would be allowed to run it. A week later Bob did get the go-ahead and my first article was published on December 1, 1958 (through the years I have written more than 30 additional articles for *Barron's*).

In her note to me Mrs. Bleiberg wrote, "You may be interested to know that about the same time Bob printed your pieces on technical analysis, the then publisher of Dow Jones, Bernard Kilgore. told Bob, 'I am not sure what you are doing, but I like it.' "

In my opinion editor Bob Bleiberg's courage and *Barron's* publisher Bernard Kilgore's curiosity and interest were instrumental in the rise of technical analysis during the '60s, '70s and up to the present.

THE MARKET: During the entire advance in the Transportation Average from August 2 to October 2, I continued to point to the fact that **the Dow was refusing to confirm the Transports.** From the October 21 peak (see page 1 chart), the two Averages broke down sharply to October 27 lows -- Industrials to **7161.15** and Transports to **3004.58.**

From the October 27 lows, the Averages rallied to early December highs, then turned down again. This move clarified the picture from a **Dow Theory** standpoint. And here's the picture -- if the Industrials and Transports can better the old highs (Dow **8259.31**, Transports **3368.31**) the bull market will be reconfirmed and the green flag will again be flying.

Conversely -- if the Averages turn down and BOTH Averages violate their October 27 lows (Dow below **7161.15**, Transports below **3004.58**), then under Dow Theory, a primary bear market will have been signaled.

Comments: The fact is that the **market has not made up its mind, it's in "no man's land," even though the parameters are now clearly defined.** When one or even two

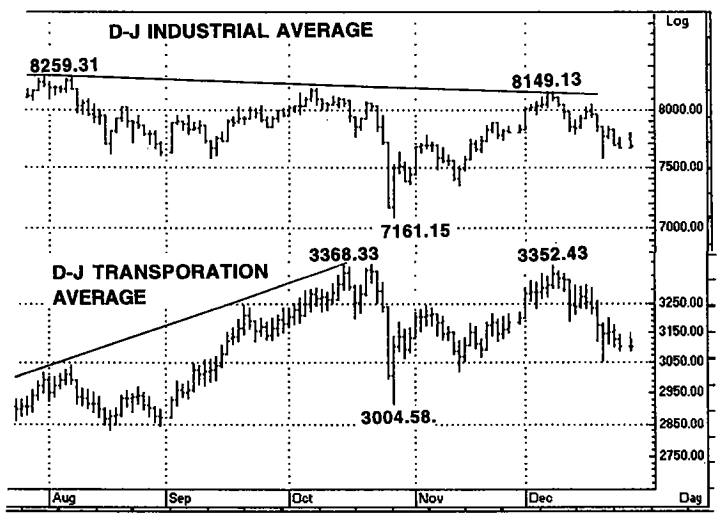
Dec. 19 DJIA 7756.29; PTI 5165; A-D Ratio +9.39
Dec. 26 DJIA 7679.31; PTI 5170; A-D Ratio +9.41
Dow Yield: 1.79%; Dow Price/Earnings: 19.7
Dow 144-day MA: 7693; Dow 34-day MA: 7830
Dow Times Book Value: 5.43; PTI 89-day MA: 5095
Percentage of Undervalued Blue-chips: 2%
Gold 34-day MA: 299

major averages have climbed to new highs there's been no follow-through by the rest of the market. By the same token, when the averages swoon for a day or two, there's been no follow-through on the downside. So as this is written the story is that the stock market is fluctuating within a **broad, high-level trading range.** That may (probably will) change in January, but trading range is where we are now.

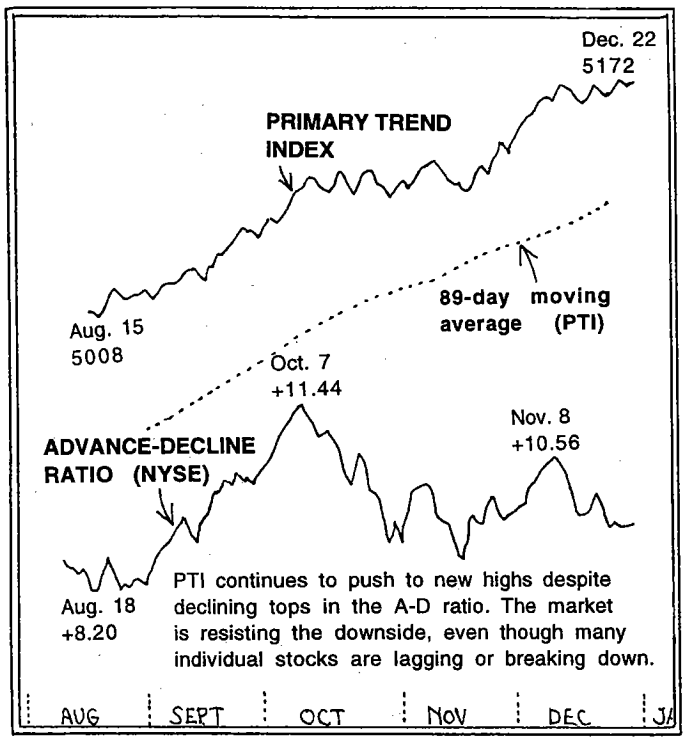
Adding to the current decidedly **mixed picture** is the profile of the **advance-decline ratio** as seen on the page 2 chart. I stated in the last Letter that I did not like this pattern of declining tops, since this formation tells us that the **majority** of stocks on the NYSE is failing to keep up with the leading averages -- never a good omen.

Offsetting A-D ratio weakness is the pattern of continuing strength in my **Primary Trend Index (PTI).** It's difficult for me to envision a collapsing market with the PTI at or near the highs (see page 2 chart). However, with the bearish pattern in the A-D ratio, I would take it as ominous if the PTI started to decline.

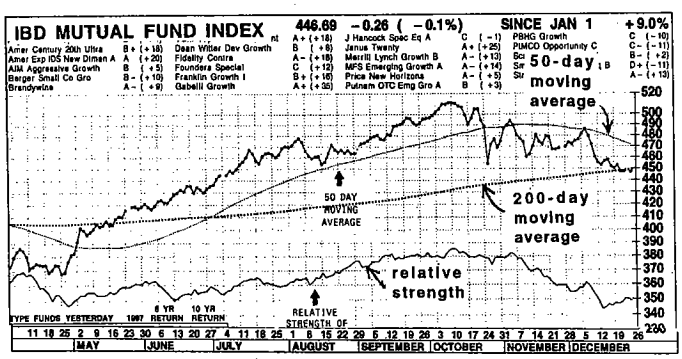
Another potentially bearish situation is seen in the profile of the **Mutual Fund Index.** In the last Letter (page 6) I included *Investor's Business Daily's* composite chart of **23 leading growth equity funds.** I stated that "this Index is looking 'toppy' to me," and I added that "if the Index drops below 450, the fund picture will look less-than-rosy." On December 24 the Index dropped almost exactly to the 450 level (which is also the level of its 200-day MA). Any weakness from here would have bearish implications.



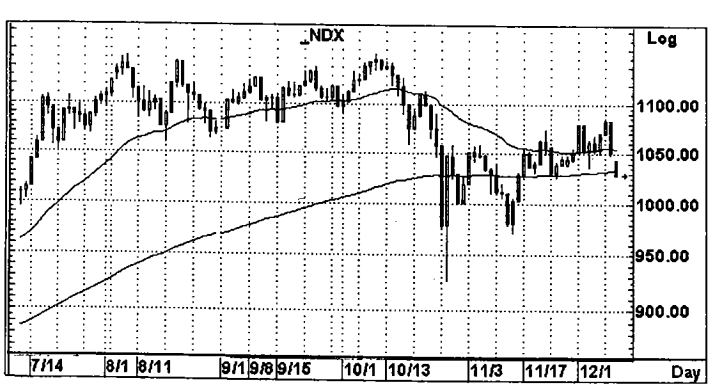
A **major non-confirmation** still exists as the Dow never confirmed the October 21 new high in the Transports. It's now been **FIVE months** since the Dow bull market high of August 6. That's a long time without a new Dow high.



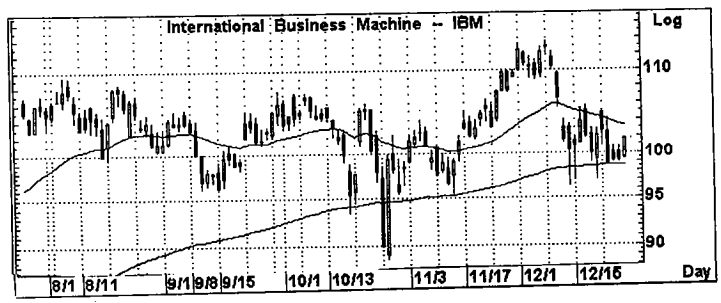
I consider the Mutual Fund Index extremely important. My reason is simple and basic -- never in the history of this nation have so many Americans invested so much in the stock market (mostly in the form of mutual funds). And never before have Americans treated stocks and mutual funds as an alternate form of "savings." Under these circumstances, a major bear market would almost surely be a disaster, since under those conditions millions of US mutual fund holders would be watching their life-savings go down the drain.

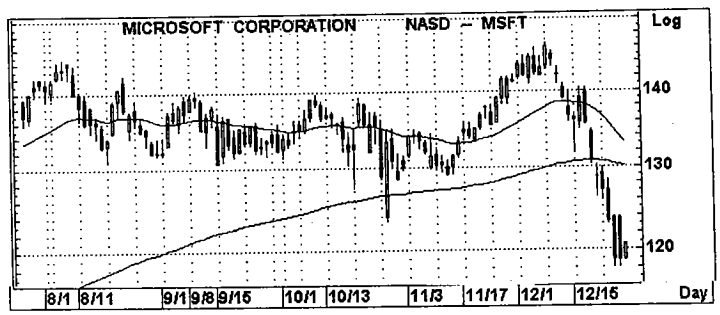


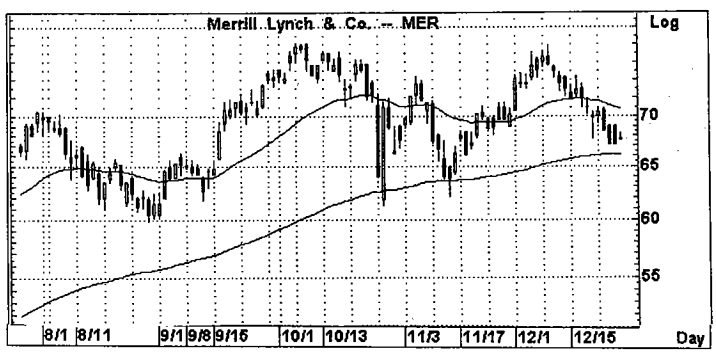
In the last Letter I included a chart of NDX, the average of the 100 biggest stocks on the NASDAQ. This average broke down badly on December 18, closing below its important October 27 low. This average has now wiped out all gains going back to the June low. Note also that the MAs have crossed to the downside, placing a technical "roof" over this market.

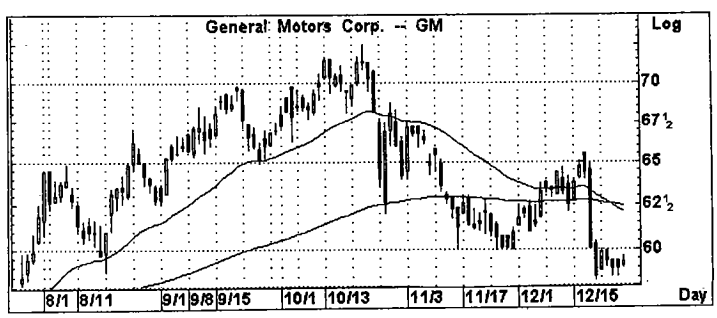


Below are charts of what I consider key stocks: **IBM, MSFT, MER, GM.** **(1) IBM** is holding just above its 144-day MA, which now comes in at 98. It would not be a good sign if IBM broke below 98. **(2)** I've considered 122 for **Microsoft** to be a critical level. Having plunged below both MAs earlier, on Dec. 24 (Xmas present for Bill Gates?) MSFT dropped below 122. **(3)** I consider **Merrill** a legitimate bellwether for the market. I'd want to see MER below 62 before I could say that MER "has had it." **(4) GM**, once the undisputed market bellwether, is a bit of a shocker. The stock has topped out, and it is probable that GM is losing market share. If this chart had appeared 15 years ago it would have shaken the whole stock market.









Comments: This market has been selling on the basis of corporate earnings growing by about 10% next year. That isn't going to happen. First, the strong dollar is going to make it much harder for

the US to export its goods. Furthermore, with most Asian economies in recession, demand for US products will ease considerably. Moreover, Asian nations are experiencing a credit crunch; they just can't get their hands on enough cash. This is hardly conducive to Asian nations buying US goods. On top of all that, US wages are pushing up, thereby exerting additional pressure on the profits of US corporations. Remember, "normally" corporations absorb wage boosts and then pass those added costs on to the consumer in the form of higher prices. But with pricing power stalled, this isn't going to work in 1998. In '98 corporations are going to have to "eat" the wage boosts. **Conclusion:** The big growth in profits scheduled for '98 isn't going to materialize. **Proof:** When corporations announce disappointing earnings, the stock market treats the announcement as a surprise and stocks swoons. Examples: Kodak, Intel, Coca Cola, Gillette, IBM and most recently MMM, Aetna, Nike. In '98 the entire stock market may be faced (I think it will) with earnings revisions.

SUNDRY OBSERVATIONS: The 30 stocks that make up the D-J Industrials represent a huge percentage of the nation's GDP (perhaps 25%). Also, many of these corporations are major exporters. An oft-heard but conventional wisdom is that "the Dow isn't the market." Yeah, right, but if the Dow refuses month after month to register new highs, it presents a problem for the rest of the stock market. A reluctant Dow could mean a lot more than the majority of bullish analysts think it does.

Peter Eliades [*Stockmarket Cycles*, (800)888-4351] notes that "Over the past 100 years the low for the year in every '8' year of each decade has occurred in the first quarter of the year. There are no exceptions. On average, the low for the '8' year was seen by February 23." **Russell Comment:** If this bull market runs true to form, that series won't happen in '98. My reason: nothing has run true to form in this market.

Question: Russell, the so-called Decennial Pattern indicates that the "8" years of every decade tend to be bullish years for the stock market. How important is that thesis for the coming year?

Answer: I've always been rather skeptical of "easy" or automatic predictions where the stock market is concerned. It is true, since 1898 we've always had either good or neutral "8" years. The years 1948 and 1978 were neutral years in that in each instance the Dow ended up about where it started. As for all the other "8" years since 1898, they have been UP years. Nevertheless, it is those "little discrepancies" in the cycles that can kill you. My advice -- don't bet your Swiss annuity on 1998 being an automatic up year for the stock market. Let's just take it one day, one week, one month at a time.

BONDS, STOCKS: The conventional wisdom is that the stock market moves in harmony with the bonds. When the bonds rally (lower rates), the market rises. When the bonds decline (higher rates), the stock market sinks. But what if deflation hits? Then the bonds are the place to be and stocks are the place to be out of. Which is why I'm watching the bond/stock relationship very, very closely now. It could be that they are parting company (bonds at a new high, stock market sliding). **Stocks and bonds parting company is what I'd expect if actual deflation takes place.**

Japan and the World: The whole world (and certainly a portion of the US stock market) seems to be hanging on Japan's willingness and ability to get itself out of its recessionary slump. Last week Japanese Prime Minister Hashimoto declared that Japan does not want to be the cause of a world recession whereupon he announced a $15.5 billion slash (as an "emergency measure") in the Japanese income tax. This amounts to only $236 to $314 for each family. Big deal -- if the Japanese people run true to form they won't spend this "windfall," they'll **save it**. In depressing reaction, last week the Nikkei sank below 15,000. Japan's bureaucrats have been "trying" for seven years to solve their economic crisis. These bureaucrats have been wrestling with market forces, trying in vain to force them into submission. But as recent events have shown, it is the market forces that now dominate the bureaucrats. In fact, the **big change** in the global picture is that **markets are now much more powerful than governments.** In the late-1990s, you either get in harmony with the markets or the government (and, unfortunately, its citizens) get their respective heads handed to them.

The deflation in commodities is broad and powerful. Corn, soybeans and wheat sinking. Cattle and hogs heading down. Cotton, lumber and copper down, along with sliding crude oil. It's a world deflation in commodities, and it's not just the strong dollar.

INVESTMENT POSITION: Year after year, through thick and thin, through the Asian fiasco, through bad-mouthing by market "experts," through record volatility, and through numerous "air pockets" in selected stocks, the bull has remained in the box. All hail Toro, the bull with 99 lives.

But watch out if we don't get a decent rally between now and the first few days of January. This bull has grown old and weary, and he may not live forever.

I've been recommending long-maturity bonds, and so far they've done well. The yield on the 30-year Treasury bond has fallen below the benchmark 6% level, and that's fine with those of us who loaded up on bonds. But don't get too complacent and don't boast about it to your frustrated friends who bought GM or Oracle or Republic Industries. The Fed is pumping, pumping, in an obvious effort to counter-act deflationary tendencies. Also, gold may have bottomed, and that's not a good sign for bonds. I may take partial profits in bonds if the March T-bond contract closes below 120. In the meantime, I'll sit with the bonds as long as they continue to act well. On the basis of technical analysis, the bonds "should" go higher, maybe a lot higher.

NOTES & QUOTES: The **Microsoft** situation is interesting, to say the least. The Justice Dept. claims that MSFT is weaseling out of its 1995 agreement not to wield its near-monopoly power in computer operating systems by forcing PC makers to use other MSFT products. MSFT has grown into one of the most far-reaching corporate combines in history. It has been likened to the Standard Oil Trust before that was broken up in 1911. MSFT now runs the encyclopedia, Encarta. It runs the largest Internet travel service, Sidewalk, which includes all the entertainment found in local newspapers. It runs Car Point, its on-line shopping guide for car buyers. It runs Boardwalk, which lists real estate for sale. Worried watchers wonder whether MSFT will next go into the newspaper business or into banking and even brokerage. There's no question about it -- Gates wants to run the whole world of communication via his software. Is it wrong? Is MSFT a menace? That will be decided in a landmark court case that is coming up. In the meantime, the judge has sided, so far, with the Justice Dept. by saying that MSFT cannot combine its Internet browser and Windows -- but MSFT will fight for its right to do what it wants, fight it with top-flight lawyers and whatever mountain of money is needed.

The latest is the MSFT has not done as ordered by the Justice Dept., which is to sell its Windows and Internet browser separately. To me, it's amazing that MSFT continues to act so totally **paranoid,** acting as if it could go out of business next week. MSFT wants to kill its competitors, it refuses to obey court orders, it argues endlessly, it snarls, it bares its fangs, it threatens -- and ironically, MSFT is rapidly gaining the image of being an arrogant, nasty outfit, even a corporate rogue. Big mistake, in my opinion, and a lesson in disastrous public relations. And it all stems from pit bull Bill Gate's paranoid view of the world. I wonder if Bill goes to bed with a bullet-proof vest under his pajamas and a Colt 45 under his pillow?

* *

Quotes: From Jim Grant's *"Interest Rate Observer"* (30 Wall St., NYC 10005). "As for the US, next year is an election year. The true magnitude of the exchange-driven shift in global manufacturing costs will come to light. Exports will fall. Imports will rise. US corporate profit margins will fall and the 'strong' dollar, we think, will be politically repositioned by the Treasury as the 'overvalued' dollar. Japan will be pressed to come to the defense of the yen." **Russell Comment:** The US loves a strong dollar, but uh, not a "too-strong dollar."

* *

From Merrill Lynch's latest *"Currency and Bond Market Trends:"* "Looking ahead to 1998, we remain steadfast **bulls on the dollar.** We expect the dollar to rise to DM/1.85-1.90 and the yen/US 140 in the coming year. . . . Although global strength has been generally strong, we view the decline in inflation expectations as positive for bonds." **Russell Comment:** If the yen goes down to 140 to the dollar, the US auto industry is going to be screaming "foul." A yen that cheap gives Japan a huge export advantage.

* *

From Marc Faber's *"Gloom, Boom and Doom Report"* out of Hong Kong [852-2801-5410] "I am on the board of an Asia fund which, at its peak, had assets in excess of US$100 million. Three months ago, its assets stood at just over $50 million; they have now shrunk to $19 million and are likely to decline even further. The mood is also totally different: the euphoria is gone. . . . Most Asian investment professionals are in a state of shock -- not to mention their clients. . . . Not since the 1974 lows in the US stock market has investors' sentiment been as negative as now, at least with respect to Thai, Indonesian, Malaysian and Korean economies and those countries' stock markets."

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From London's *Financial Times:* "Asia's economic crisis could reach a critical stage in the first quarter of next year, with large corporate debt defaults leading to the declaration of more general moratoria and the imposition of capital controls. . . . In fact the situation has deteriorated markedly as it is realized that the IMF remedies are highly deflationary and are not appropriate for a private sector crisis." **Russell Comment:** But never fear, the IMF announced last week that the Asian mess won't hurt the US. I feel better already.

IMF Says Asian Crisis Won't Hurt U.S.

Updated Report Also Trims Forecast for '98 Growth In the Global Economy

in the past 25 years. In its place is a new humility – and a host of downward revisions in global growth.

Financial crises may be "inherently nonforecastable," the IMF said, because "their occurrence and especially their timing are intimately linked to sudden

of negative growth – in any of the nations of Southeast Asia or South Korea. The IMF's research director, Michael Mussa said he considered the IMF's South Korean forecast to be "decidedly optimistic."

Even if Asian nations don't experience negative growth, Mr. Mussa said, they still

Russell Comment: I see the whole IMF bailout as a massive repeat of the Mexican bailout, meaning that what the IMF is doing is simply bailing out rich creditors. Behind the US contribution to the bailout is Treasury Secretary Rubin. Actually, the Asian mess presents a great opportunity for US banks. With hundreds of Asian corporations having collapsed, with the dollar buying twice what it could a year ago, the banks can buy up Asian assets for 25 cents on the dollar. What represents a disaster for Asia could turn out to be a bonanza to US banks and investors (of course, that all depends on whether Asia can come back. If it can't, then US buyers are simply buying up future bankruptcies).

* *

China: It is thought that Chinese banks are sitting on at least $200 billion in bad loans. Strangely, next year China will increase funds for bad debts by only $1.4 billion. Part of the problem is that the state has handed over many of the state's "dead" enterprises to the banks. It is estimated that at the rate China is getting rid of its rotten loans, it will take 50 years to clean up the mess.

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Junkie America: What is the driving force behind the US drug trade? It's the $57 billion Americans spend annually on drugs. It is estimated the 6% of the US population now uses illegal drugs.

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Forget Europe, do your traveling in Canada. Why? Well, the Canadian dollar has just hit an 11-year low against the US dollar. Each Canadian dollar is now worth slightly less than 70 cents, US. The Canadian central bank rate is now only 4.5%, and I think it will have to go higher. Interestingly, Asians don't see the Canadian Dollar as a place of safety.

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In a recent *LA Times* poll, 84% of Latino voters in California supported a ballot initiative called, "English for Children" that would dismantle **bilingual education** in the state's public schools. And why not? These Latinos want their kids to learn English as quickly as possible. They have to if they want to succeed in school or in the US system. Only misguided liberals want to keep Latinos ignorant of real English, much as the "Ebonics" fools in Oakland wanted to institutionalize incorrect "black English" as a legitimate language. The fact is that there's nothing that will help a person get a job or move ahead in society as much as an ability to express oneself in the English language. The language of the US is **English.** The language of the Internet is English. The language of US and world business is English. The language of US science and academia is English. It would behoove the nation's liberals to face that fact.

* *

Statistics to mull over: US taxpayers picked up a $2.8 billion tab last year for student borrowers who failed to repay on their defaulted loans. . . . Since 1980 nearly 400,000 Americans have died (murdered) at the hands of their fellow citizens. This is more than the number of Americans who died in the battlefields of World War I and II combined. . . . Despite what you may hear -- over the last 12 months the US (even while raiding the Social Security income) has added $155 billion to the national debt, which now stands at $5.489 trillion.

* *

INFLATION/DEFLATION: One of the major debates these days is inflation vs. deflation. The deflation argument is based pretty much on the collapse of the Asian economies and its potential effect on our economy. The inflation-oriented economists claim that deflation cannot occur, or if it does it will only be very temporary. They reason that there can't be monetary deflation because central banks can now create all the paper they want, and central banks simply will not stand for deflation.

But the doubters claim that a crisis, such as the current Asian crisis, could create so much chaos in the world's banking systems that we could actually see a **shrinking of the global money supply.** Furthermore, such a situation could be exacerbated by competitive currency devaluations (we're seeing this now) in which the very value of almost every currency (since there is no gold backing) would be suspect. Remember, currency valuation today is strictly relative -- the dollar vs. the D-mark, the D-mark vs. the yen, the pound vs. the dollar, etc. If all paper starts to collapse, this could be deflationary since it would result in massive bankruptcies with no nation or business able to pay their foreign bills or debts.

* *

Being advertised everywhere -- a new game called "Mutual Fundz." The ad states that "It's Cunning, It's Strategy, It's a financial feeding frenzy. You'll laugh til you cry, you'll lose your shirt. Buy low! Sell high! Run your entire family into the poorhouse." **Russell Comment:** Sounds like fun -- or could it be some kind of prediction?

* *

Business Week (Dec. 29) polled 45 leading economists and analysts as to where the Dow would be at year-end. The consensus figure -- 8464. As to where the Dow would be at mid-year 1998 the consensus was 8311. In polling 1,009 adults for the question, "over the next year do you think stocks will go up?" 38% said yes, 39% said "stay the same," and 16% said "market will be down." **Russell Comment:** Complacency is the order of the day.

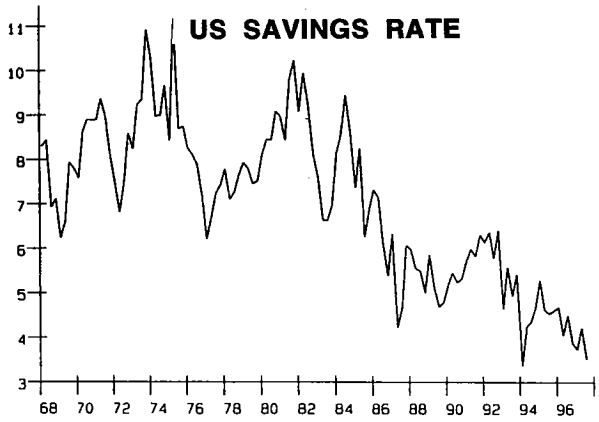
* *

Are Americans still getting married? If the size of the latest issue of *Bride's Magazine* is any indication, they are. The Christmas issue is four pounds and contains a record 1,160 pages. Whew.

* *

Are Americans worried about the future? Do they think Social Security is safe? From what you read, you'd think Americans are very worried. But from what they're doing, you have to conclude that Americans are confident about the future. Why do I say that? Look at this chart (courtesy of Ed Hyman's *ISI*) showing the **U S**

savings rate. The rate is now below 4%, and has dropped to its lowest level in recent years.



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When I was a kid there was a major effort to establish Esperanto as the **international language,** a language which was to bring the world together. It never worked that way. Don Morris [*The Trident Syndicate,* PO Box 19909, Houston, TX 77224] notes that today approximately 6,500 languages are spoken. As a mother tongue, about 860 million speak Mandarin, 350 million Hindi or Spanish, 340 million English and 75 million French. However, as a second language Mandarin still leads with over a billion, but English is now second with 490 million with French far behind at 130 million. Up to a couple of years ago, about 90% of all Internet websites were in English; now other nations are joining the web and about 60% of all websites are in English. English today is the international language of business, despite the annoyance of many other nations.

* *

Secrets -- I distrust them, I hate them. The only reason for a government secret is if it threatens the safety of the nation. I would guess that 90% of all secrets hide something that is evil. Somewhere in the Bible (I forget where) it says that all things hidden will ultimately come to light. I believe it, whether it's JFK's licentiousness or the world's (not just Switzerland's) disgraceful hiding of Jewish gold, or Clinton's disgusting conduct in raising money for his party. Now FBI chief Freeh refuses to reveal his memo to Reno, in which he strongly advised the choosing of a special prosecutor. Why the secrecy? Who's hiding what? Who's being protected? Ugh.

Capital punishment -- in theory, I'm against it. No developed nation (except the US) practices it. It's legalized government murder. Even Russia is moving to outlaw it. But emotionally, listen, if someone did great harm to one of my daughters, I swear I wouldn't hesitate to pull the trigger. But what I do strenuously object to in capital punishment is that it is done in SECRET. The US public wants it, they consistently vote for it, but they never look at it. Normal Mailer advocates public executions or executions on TV. I second the motion. Let the public **see** what they voted for. Execution in secret, as it's practiced in the US, is disgusting, it's fearful. I distrust anything that is secret, whether it's done in political back rooms or in the hidden bowels of a prison's death chamber.

* *

Remember six months or a year ago when so many experts were touting the wonders of investing in foreign stocks? It didn't work out as predicted. A glance at the various closed-end funds that invest in foreign stocks is almost sickening. Japanese stocks are off 21% in 1997 alone, Singapore down 39%, South Korea down 60%, to give a few examples. Russell advice -- if you can't find anything worth buying on the NYSE, the Amex or the NASDAQ or in bonds, stop investing, you're in the wrong business.

* *

I keep getting letters from subscribers asking me about the **end-of-the-century computer problem,** known as Y2K. The whole problem started in the '60s and '70s when a megabyte of system memory could cost tens of thousands of dollars. So to save money, early programmers used only two digits to designate the year (few programmers expected their system to last into the '90s). Then, as new systems came into being, they were made compatible with the old ones, and thus the new systems stayed with the two-digit years. Now, many companies have as much as 100 million lines of computer code in their systems, all programmed in the old two-digit way. This presents a massive problem. All the old systems will treat the coming year 2000 as if it is 1900. Furthermore, if the old systems are updated, they will have to be careful because if they are made year-2000 compliant, they have to be sure that outside systems they are connected with are also updated. Bad data could mess up both systems. The question: How many government and corporate and private computers will be year-2000 compliant? And what will it cost to update them? The total cost will run into the billions, and, unfortunately, it's a problem that in a large number of cases has not been addressed. So hold onto your hat for the year 2000, the year when a lot of computers (we don't know how many) will malfunction.

* *

Progress? Drugs have produced the McCaughey septuplets. An angry women wrote this letter to *Time* magazine, "This hoopla over the McCaughey septuplets is beyond me. It was bad enough to keep women barefoot and pregnant, now they have litters."

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Titanic, the $200 million film, is out. The reviews differ, to say the least. *The NY Times* loved the movie, calling it "a huge, thrilling three-and-a-quarter hour experience that unerringly lures viewers into the beauty and heartbreak of its lost world." But the *LA Times,* which usually bends over backwards to praise films (after all, movies are LA's local product) surprised me by calling *Titanic* "a hackneyed, completely derivative copy of old Hollywood romances, a movie that reeks of phoniness and lacks even minimal originality." **Russell Comment:** I haven't seen the film but I'll bet the actual story, prior to the sinking, is a crashing bore, but I'm sure the scenes of the Titanic sinking are great. . . Oh, no, my favorite movie reviewer, Rex Reed of the *NY Observer,* writes of *Amistad,* "It's impressive, sincere and politically correct. It's also a colossal bore. . . . It's obviously something Mr. Spielberg had to get off his chest. It took him 13 years to do it, and it feels like 13 years watching it."

Russell pick for the best film of the year: *LA Confidential.* I didn't see *Titanic* or *Amistad,* but I don't have to -- it's *LA Confidential* because they just don't make 'em any better. By the way, if *LA Confidential* wins the Academy Award one reason will be that it cost only $36 million to make, and I think Hollywood will be making a statement -- "We've got to start making lower-cost films or we're going to go broke. The viewers will soon be getting tired of boring, repetitive million dollar block-busters -- and then what?"

What Foreign Policy?: On December 17, on one of the longest-winded press conferences (92 minutes) in history, Clinton boasted about his foreign policy. Clinton's weird boasting staggered Washingtonians. Wrote the *NY Times* (this headline is from a *Times* piece), "The picture was all but unrecognizable to many in Washington foreign-policy circles, including a number of senior Administration officials. Asked what he made of it, one such official, who spoke on condition of anonymity, rolled his eyes and replied, "The President was just having a little political fun."

Rose-Tinted World

Clinton Is Proud of Foreign Policy, Raising Eyebrows Here and Abroad

By R. W. APPLE Jr.

WASHINGTON, Dec. 17 — Although he acknowledged that work remained to be done, President Clinton gave a remarkably upbeat assessment of the state of the world today, declaring that the United States was "in a stronger position to lead the world to peace and prosperity than ever before in our history."

There were other striking examples of rose-colored glasses:

Mr. Clinton said that "under the Vice President's leadership" confer-

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The Problem Box: Emus, those flightless Australian birds, have cost Americans millions. The reason -- selling the birds as a low-fat meat source never got off the ground. But a few years ago an unhatched chick could bring as much as $4,000, while matured breeders were bringing $50,000 a pair. Then the market collapsed

and today thousands of the huge birds are roaming around the Texas countryside, set loose by ranchers unwilling to spend any more on food. Other hundreds of birds have been allowed to starve in their pens. Police have caught some breeders "euthanizing" their birds with aluminum baseball bats. . . . Restaurants, the so-called theme eateries, keep coming out of the walls. Industry analysts say that the average restaurant generates average annual revenue of $500,000 to $750,000 a year. But theme restaurants can generate $4 million to up to $14 million a year. The big three theme restaurants are Planet Hollywood, Hard Rock Cafe and Rainforest Cafe. Of course there's Harley, the Fashion group and two late arrivals, Cartoonville and Marvelmania. The latter, courtesy of Marvel Entertainment, will sell toys, dolls, etc. **Russell Advice:** Don't rush into the theme restaurant business. . . . Don't open a conventional convenience store yet? Why -- because the little 7-Eleven type stores are already antiquated. The new 24-hour convenience stores are twice or more as big, 4,000 feet or more, set on white concrete and lit up like Vegas Casinos. The new mega-convenience stores will generate $4 million a year in revenues, vs. $1.5 million for the old stores.

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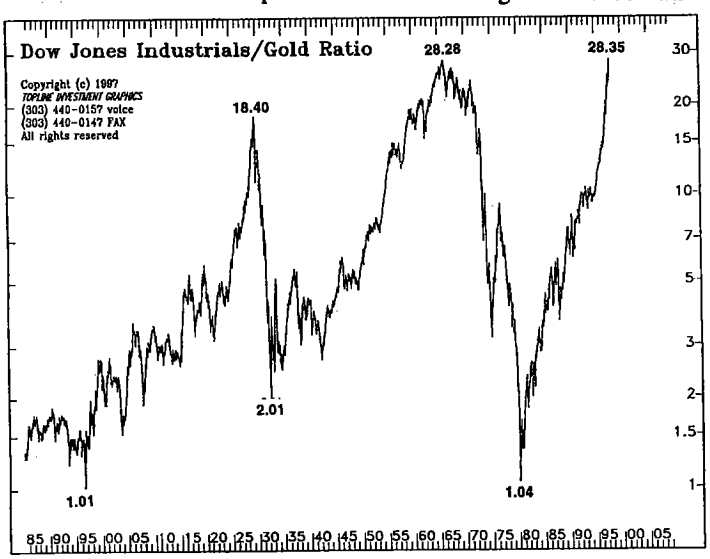
OK, how many Bill Gateses does it take to change a light bulb? Answer: None, Gates puts in the bulb and lets the world revolve around him.

GOLD: Can history repeat? Sure it can, but it doesn't have to. This chart was sent to me by John "the chart maven" Carder of *Topline Graphics* [(303)440-0157]. It shows that at the 1966 stock market highs the Dow could buy 28.26 ounces of gold. Of course, at that time gold was "fixed" by our government at an absurd $35 an ounce.

Then in late-1979 (with gold free to trade on the open market) the Dow could buy only 1.04 ounces of $800-an-ounce gold. A great bull market in stocks had started in 1974 and a great bear market in precious metals began in 1980. Stocks advanced and gold declined. And lo -- here in 1997, the Dow can again buy more than 28 ounces of gold. Is this 1966 again? Is gold dirt-cheap and are stocks at the highs again? Well, it's possible.

With currencies collapsing around the world it could be that we're seeing the high for financial assets and the low for tangible assets. For instance, we know that the **real estate/stock market ratio** is at an extreme, with real estate "very cheap" compared with stocks (which is why many value-oriented investors are piling into real estate).

Next question -- is this the long-awaited turn for gold? No question, gold is beginning to act better, the sentiment (and unending propaganda) regarding gold continues black-bearish, currencies around the world are collapsing, the dollar is looking "expensive," and gold (see last Letter) looks as though it has hit bottom and then turned up. And of course nothing would shock the



Death of Gold

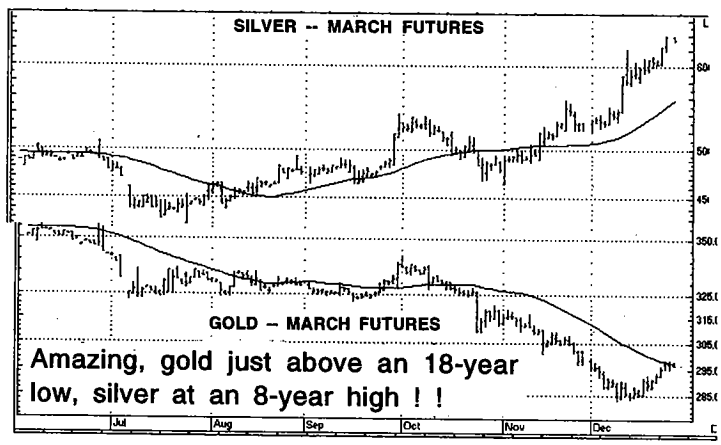
Gold has always been more than a precious metal – men have even lost their li... longer. Gold has fal... mere metal and a bad ... Kenneth Gooding explains why most of the glister has disappeared

Obituary courtesy of the Financial Times

world's central bankers more than a long-term decline in the Dow/gold ratio (by this time you probably know Russell's opinion of central bankers including my opinion of that institution known as the Federal Reserve).

As Asia slips into recession, we can expect that central banks around the world will do what they do best -- pump up the money supply. As this happens, the background for gold will improve (since an increased torrent of paper translates into upward pressure on gold).

On to reality. This chart shows silver on Nov. 13 pushing above its 34-day moving average (MA) and climbing to well over six bucks (there's an actual shortage of silver in the warehouses). Gold is a different story. The 34-day MA for gold stands at 297. Gold will look more constructive if it can close above 297 and hold above it. As for stocks, Barrick Resources looks the best of the gold bunch. If you want to jump the gold gun, this is the one I'd pick.



WELCOME: As of this Letter, I'm taking over Marty Zweig's thousands of subscribers, and I want to welcome all of you. Marty and I have been friends for over 25 years, and we are very familiar with each other's market philosophies and investment techniques. Twenty years ago Marty and I made an agreement that if anything happened to one of us, the other would take over his service. What happened is that Marty finds that writing his report on top of all his other ventures and duties (closed-end funds, hedge funds, overseeing $7 billion in assets, etc.) is just too much to handle. So a month ago Marty called me and asked me if I would take over his service. I said I would be happy to, and that's why you're reading this. I will continue to do my very best, and I sincerely hope that all you Zweig followers will be happy with Dow Theory Letters.

LATE NOTES: Don't miss the fascinating interview, "Playing Bubbles," with Albert Edwards (a global strategist) in the Dec. 29 *Barron's* . . . This is the ultimate **"if" market**, if China devalues, if S. Korea defaults, if the yen hits 140 to the dollar, if bonds keep climbing, if the US deflates, if, if, if . . . **Russell view:** Firm convictions can kill you in this business. I **follow** the market, and then try to understand the picture in view of what the market is doing. Right now, with my **PTI at its high (just no consistent weakness)**, it's difficult for me to be bearish. I might prefer bonds, but that doesn't mean I'm bearish on stocks . . . Markets often change direction in January (remember 1969) so we'll really watch it . . . **Football item:** Brett Favre (Green Bay) is unbeaten in 22 cold weather games at Lambeau Field when the kickoff temperature was 35 degrees or below --including 3 times this year -- place your bets. **NOTICE:** Effective Jan. 1 the price of our FAX service will be $90 for both US and Canada for a full year and $200 for foreign (this in addition to regular subscription price).